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SUBJECT: Argentina: Debt and Investment Issues Discussed with Labor Secretary Chao

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Ref: (A) Buenos Aires 2338  
(B) Buenos Aires 2271  
(C) Buenos Aires 2112

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Summary  
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1. (SBU) Secretary of Labor Chao, in a December 12 meeting with incoming Finance Secretary Hugo Secondini and Argentina's proposed new Ambassador to the U.S. Hector Timerman, emphasized the importance of addressing Paris Club arrears as a first step in regularizing Argentina's access to international capital markets. Secondini acknowledged the importance of resolving this issue which he said needs to be done quietly and "not in the press." The GoA also plans to address the bond holdout issue, but on the GoA's own schedule, not one defined by U.S. and European holdout lobbying groups. On Venezuela's support in placing Argentine bonds, Secondini said "we know who and what we are dealing with." Secretary Chao said she appreciated the recent visit of senior GoA

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statistical agency officials to her Department's Bureau of Labor Statistics to review U.S. consumer price index calculation methodologies. In response to the Secretary's questions on the investment climate, Timerman called Argentina's success in attracting new service sector foreign investment a function of Argentina's capable and well-educated human capital. Ambassador noted the need for an investment climate that welcomes needed new infrastructure investment as well, particularly in the energy sector.  
End Summary.

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Department of Labor Hosts GoA Statistical Officials  
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2. (SBU) On December 12, Secretary of Labor Chao met with incoming Ministry of Economy Finance Secretary Hugo Secondini and incoming

Ambassador to the U.S. (and current Consul General in New York City) Hector Timerman at the Ambassador's residence. Secretary Chao noted the recent visit of senior INDEC (GoA official statistical agency) officials to the Department of Labor's Bureau of Labor Statistics (Ref C) to review U.S. consumer price index calculation methodologies. Secondini thanked the Secretary for DoL's courtesy and said the "updating" of Argentina's inflation calculation is a priority of incoming Economy Minister Lousteau (Ref B).

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Bond Holdouts, Paris Club and IMF-Pre-payment  
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¶3. (SBU) Secretary Chao noted the American Task Force Argentina, a bond holdout advocacy group, had requested that she raise their longstanding repayment claims with senior GoA officials. Secondini said that the GoA will certainly address holdout issues, but on the GoA's own schedule, not one defined by U.S. and European holdout lobbying groups. The GoA position remains clear and consistent, he said: "In 2005 we gave all bondholders the option of accepting a deal, and the GoA is now legally prohibited from re-opening this offer." The Argentine economy, he concluded, remains "under stress" and requires a flexible approach to dealing with holdout creditors. Ambassador noted that he had followed the GoA's 2005 bond exchange offer from his previous Washington-based position as the State Department's Assistant Secretary for Economic Affairs and suggested that Argentina could have increased participation in the exchange by 10-15% had the GoA shown more flexibility in structuring its offer (bondholders of 76% of the total value of GOA defaulted bonds swapped their bonds in this exchange at roughly \$0.34 on face value dollar). Nevertheless, it is clear that U.S. bondholders will remain active seeking a re-opening of talks.

¶4. (SBU) Secretary Chao and Ambassador emphasized the importance of addressing Paris Club arrears as a first step in regularizing Argentina's access to international capital markets, so that Argentina can once again access needed official export credit agency financing. Secondini agreed, noting the Economy Minister Lousteau

has publicly acknowledged the importance of resolving this outstanding issue. "We need to take this step-by-step," he said, "and we certainly don't want to negotiate this sensitive matter in the press." Secondini offered to meet with the Embassy's economic team to review GoA discussions with Paris Club creditors to date.

¶5. (SBU) Secretary Chao noted that the GoA had significantly increased its cost of funding by pre-paying relatively inexpensive IMF debt in January 2006 and funding with sovereign and Venezuela-supported issues at significantly higher rates -- especially since international capital markets began re-pricing risk in August 2007. The GoA's decision to pre-pay IMF debt, Secondini responded, was a largely political one, with a broader political cost/benefit calculus. On Venezuela's support in placing Argentine bonds, he said "We know who and what we are dealing with."

¶6. (SBU) Current Argentine Consul General in New York City and Ambassador-designate to the U.S. Hector Timerman joined the conversation late. He noted that he is pending "agreement" (USG approval) and is eager to take up his duties in Washington. In response to Secretary Chao's question on who in the GoA is responsible for attracting needed foreign investment to Argentina, Timerman distinguished between investment in basic infrastructure, under the purview of Planning Minister Julio De Vido, and service sector (information technology, creative arts) investment, under the responsibility of Argentina's investment promotion agency head Beatriz Nofal. Timerman called Argentina's success in attracting new service sector FDI a function of Argentina's capable human capital. Ambassador noted strong growth in Argentina's automotive, IT, tourism and creative sectors and praised the caliber of Argentina's labor pool. He agreed that the rapid expansion of U.S. investment in Argentina's service sector was a function of the nation's well-educated, highly capable and relatively inexpensive workforce. Ambassador noted the need for an investment climate that welcomes new infrastructure investment as well, particularly in the energy sector. Timerman noted the boom in U.S. tourism to Argentina, with Buenos Aires elected in one recent U.S. survey as the second most popular tourist destination.

17. (SBU) Secretary Chao noted that she had arrived in the U.S. as an immigrant and asked about Argentines living abroad. Timerman estimated there are roughly one million Argentines overseas, with 70,000 in Israel, 500,000 in Europe (where Spain and Italy offer automatic citizenship to third generation returnees) and 200-300,000 in the U.S., concentrated in Los Angeles, Miami, and New York City. New York's Mayor Blumberg, Timerman said, had commented to him on the caliber of the Argentine immigrant population in New York. Finally, Timerman noted the concentration of educated Argentine's working in New York City's financial sector, including his own brother, who trades foreign currencies at Bear Sterns. He recommended the recently published book "Golden Boys," which documents the exploits of Argentine investment bankers on Wall Street.

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